

Why there are costs overruns on construction projects? (Part 2)



Cost Consultants

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News

eManagePro, represented by Monica Bialski, PQS, was elected to the board of directors of Économistes en Construction du Québec (ECQ)

Quebec housing starts fairs better than the Canadian average.

Québec housing starts in 2009 are well down versus 2008, but they are not at a totally distressed level. The new housing price index for Montréal is actually +1.9% year over year in July and in Québec City, it is +6.8%. For Canada as a whole, new home prices are -3.3%, according to Statistics Canada

Why there are cost overruns on construction projects (Part 2) ? by Ray D'Onofrio

The cost overruns seem to be imbedded in the projects reality. Why do they happen so often?

To identify the causes behind the cost overruns, certain avenues were explored by our consulting firm eManagePro. We have analyzed 27 construction projects from Quebec and Ontario and for which a major overrun had been discovered.

One of the main causes for the cost overruns on construction projects is initial underestimating of the costs. This maybe caused by lack of detailed plans and specifications at the beginning/conceptual stage.

Another potential reason (which is hard to quantify) might be the motivation of the stakeholders to have the project approved at the certain costs. Cost overruns can also be explained by a frequent and insidious increase of the scope of the work.

The analysis of the 27 projects reveals that revised assessments were at least 9.5% higher than the original budgets.

According to our study, the other main causes for overruns are the following:

- Inadequate management , planning and coordination of the project
- Modification of the scope of the work
- Compression of implementation schedules
- Errors and omissions on the tender documents
- Errors and omissions on the drawings and specifications
- Design changes
- Bad quality of materials and workmanship that has to be corrected
- Changing weather conditions
- Perturbations due to clients or other stakeholders changes

After further data analysis , the following further conclusions were made:

- Cost overruns are rarely attributable to a single cause or person;
- The overruns are reduced when stakeholders are well identified from the beginning of the project - and are united in their plans of action.
- Well planned and managed projects, rarely had experienced major cost overruns.

In summary, construction projects are subject to numerous changes and changing conditions. Strict discipline related to initial cost budgeting, control of changes , management of stakeholders and overall forward planning will ensure no cost overruns.



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